

**ANCHUN INTERNATIONAL HOLDINGS LTD.**

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**RESPONSE TO SGX QUERIES**

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The Board of Directors (the "**Board**") Anchun International Holdings Ltd. (the "**Company**") and together with its subsidiary, Hunan Anchun Advanced Technology Co., Ltd. (collectively known as "**Group**") has on 17 August 2021 received the following queries from the Singapore Exchange Securities Trading Limited ("**SGX-ST**") in relation to the Group's unaudited condensed interim consolidated financial statements for the half year ended 30 June 2021 released on 10 August 2021 and sets out its response as follows:-

**Question 1:** The Company disclosed in its profit warning on 5 August 2021 that "Following a periodic review, the Group is expected to report a lower revenue and a loss in 1H 2021, mainly due to the project delays caused by the continued supply chain disruption which in turn affected and resulted in higher material costs." Please provide an update on these project delays and elaborate on the supply chain disruption which caused the project delays. Please disclose when were these projects supposed to be completed and when is the new estimated completion date.

**Response:**

The details of the delayed projects are as follows:

Customer Name	Original expected completion date	Updated estimated completion date
河津市华源燃有限公司	2Q2021	4Q2021
赛鼎工程有限公司	1Q2021	3Q2021
呼伦贝尔东北阜丰生物科技有限公司	2Q2021	FY2021
浙江晋巨化工有限公司	2Q2021	4Q2021
阳煤集团淄博齐鲁第一化肥有限公司	2Q2021	FY2022

These customers' projects experienced delays mainly caused by change of their payment plan, slowdown of EPC project schedule, or waiting for government's final approval.

**Question 2:** The Company recorded significant trade and other payables amounting to RMB25.1 million as at 30 June 2021 which is almost equivalent to its 1H2021 revenue of RMB27.3 million. Please disclose a breakdown of the trade and other payables and explain the reasons for the significant amount. Please disclose the identity of the counterparties, the aging and nature of these other payables.

**Response:**

The trade and other payables are interest free in nature. Most of the trade and other payables are within the credit terms and not due for settlement as at 30 June 2021.

The breakdown of items of trade and other payables of RMB25.1 million are as follows:

Item by nature	30/06/2021 RMB'000
Trade payables	11,693
Other payables	13,425
<b>Total</b>	<b>25,118</b>

The breakdown, aging, counterparties and nature of items of other payables are as follows:

Item by nature	30/06/2021 RMB'000	<1 year RMB'000	>1 year RMB'000	Counterparties	Comments
<b>Other Payables</b>					
A. Value-added tax payables	5,466	5,466	–	Hunan Provincial Tax Service, State Taxation Administration	Mainly for goods and services rendered by its subsidiary in People's Republic of China.
B. Housing insurance	1,514	1,514	–	Hunan provincial units housing provident fund management center	Voluntarily housing insurance for the workers.
C. Other operating tax payables	657	657	–	Hunan Provincial Tax Service, State Taxation Administration	The other operating tax payable pertains to the followings:- - City maintenance and construction tax; - Education supplementary tax; - Local education supplementary tax.
D. Sub-total of Others (company or person each with other payables less than RMB600k)	5,788	3,401	2,387		
<b>Total</b>	<b>13,425</b>	<b>11,038</b>	<b>2,387</b>		

**Question 3:** The Group recognized impairment losses of RMB634,000 during the current reporting period.

- a. Please disclose the specific reasons why impairment losses were recognized for the RMB634,000 receivables, the underlying transaction for the receivables and why these are not deemed collectible.
- b. Please disclose whether these amounts are owing by related parties, directors, key executives, substantial shareholders or their respective associates. If so, please provide details.
- c. Please disclose whether these debtors are still in operation or in financial difficulties.
- d. Please disclose the Board's assessment on the recoverability of the Group's trade and other receivables/trade receivables and the basis for such an assessment.

**Response:**

- a. The RMB634,000 pertains to impairment losses arising from trade receivables. It represents the provision for expected credit loss ("ECL") for outstanding debts for the financial reporting period ended 30 June 2021. The amount is provided based on the ECL model in accordance with the SFRS (I) 9. The Group has established a provision matrix based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.
- b. These outstanding amounts are not owing by related parties, directors, key executives, substantial shareholders or their respective associates.
- c. These debtors are still in operation as at the financial reporting period ended 30 June 2021. To the best of its knowledge, the Group is not aware of any specific debtors that are in financial difficulties. However due to current Covid-19 pandemic, the management and Board anticipated slower trend in collections of outstanding trade receivables. Management closely monitors the status of outstanding trade receivables and collection and follow up efforts.
- d. Senior management conducts regular assessment on the recoverability of the Group's trade and other receivables with accounting, sale and business segment personnel. The management team makes regular phone calls and send out collection letters. In addition, the management visits customers' sites regularly to expedite the collection process. Furthermore, Attorney Letters are sent out to debtors and lawsuits are filed when necessary. The Group conducts monthly reviews of its outstanding trade receivables with senior management, accounting, sale and business segment personnel to monitor outstanding debts closely and assess the needs to make impairment losses on the outstanding debts.

The impairment losses on financial assets are done periodically using the ECL model according to SFRS (I) 9. Due to the current Covid-19 pandemic, management expects slower repayment from debtors and uncertainty in the foreseeable future, these factors are already considered in the ECL model.

The Board, having considered the Group's efforts and the information available to it, is of the opinion that adequate allowance for impairment has been taken for the Group's trade and other receivables at 30 June 2021.

**Question 4:** The Company's total receivables outstanding beyond 6 months amounted to RMB45.6 million which exceeds the total revenue earned in 1H2021 of RMB27.3 million. Bulk of the outstanding trade receivables amounting to RMB26.9 million were from sales transacted longer than 2 years ago which is prior to the outbreak of COVID-19.

- Please disclose the reason for the failure to collect receivables from sales and what were the credit terms extended to these customers.
- Please provide the sales that were transacted in FY2020, FY2019 and FY2018 and to disclose for each respective year how much have not yet been collected and written off to-date.
- Please disclose the Company's debt collection policies and processes and why it has been unsuccessful in collecting these significant debts.

**Response:**

- As the Group's customers are primarily in the People's Republic of China, the slowdown of the China economy has resulted in some payment delays. Customers are billed based on the contractual payment schedule which are typically triggered upon achievement of specified milestones. Trade receivables are unsecured, non-interest bearing and are normally settled between 90 to 180 days terms. The Group endeavors to trade with recognised and creditworthy third parties as part of its efforts to mitigate credit risk while continue to seek revenue growth.
- The breakdown of sales and related trade receivables for FY2020, FY20219 and FY2018 are as follows:

Item by nature	FY2020 RMB'000	FY2019 RMB'000	FY2018 RMB'000
Revenue	93,920	170,999	111,205
Trade receivables not yet been collected to-date	3,797	17,909	8,002
Amount written off to-date.	–	–	–
Percentage (%)	4%	10.5%	7%

- Please see the Company's response to Question 3 (d) and Question 4 (a) above.

**Question 5:** Please disclose a breakdown of the specific banks which have issued the bill receivable amounting to RMB31.2 million that are outstanding for 6 months and less, as well as for the RMB5.2 million that are outstanding for 6 months and more. Please explain why such significant amounts are outstanding and why was the Company unable to collect these bill receivables.

**Response:**

The bills receivable have maturity periods of approximately 90 to 360 days' terms. The increase in bills receivable is mainly due to more bills receivable from our customers for sale contracts. The bills receivable may be used to purchase of raw materials for sale contracts or held to maturity and converted to cash.

The breakdown of the specific banks which have issued the bills receivable amounting to RMB36.4 million are as follows:

Item by nature	<6 months	>6 months
Banks each with bill receivables more than RMB2.0 million	Haixia Bank of Fujian Qilu Bank GW Bank China Citic Bank Bank of Ningbo Bank of Zhengzhou	–
<b>Sub-total (RMB'000)</b>	<b>18,784</b>	<b>–</b>
Banks each with bill receivables between RMB1.0 million and RMB2.0 million	Xiayi rural commercial bank of Shanxi Bank of Jiangsu China Construction Bank	Shanghai Pudong Development Bank  China Construction Bank
<b>Sub-total (RMB'000)</b>	<b>3,600</b>	<b>3,100</b>
Sub-total of Others (banks each with bill receivables less than RMB1.0 million)	8,809	2,050
<b>Total (RMB'000)</b>	<b>31,193</b>	<b>5,150</b>

### By Order of the Board

Zheng, ZhiZhong  
Executive Director and Chief Executive Officer  
19 August 2021